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SUBJECT: ENERGY MINISTER POPOVIC TELLS AMBASSADOR SERBIA NEEDS MORE ENERGY

SUMMARY

1. (U) Serbian Energy Minister Popovic told the Ambassador on October 4 that Serbia's single source of gas from Hungary, and domestic electricity production could not meet peak demand during winter cold snaps. Popovic compared Serbia's energy relationship with Russia as "business, not friends." In response to the Ambassador's question, Popovic said he walked out of the Southeast Europe Energy Community (SEEC) meeting in Athens on September 28, because the UNMIK delegation presented itself as the "Government of Kosovo" delegation. Serbia wanted, he said, to cooperate with Kosovo on energy, but not when the delegation caused an unnecessary provocation. End Summary.

Gas Storage and Pipelines Primary Challenge

2. (U) During the first part of the meeting, Popovic highlighted the natural gas import capacity limitations of having only one pipeline from Hungary to support all of Serbia's gas needs as well as transit gas to Bosnia-Herzegovina. Serbia is constructing a gas storage facility, Banatski Dvor, and plans to have the facility operational before next winter. This facility will allow Serbia to avoid gas shortages when cold winter weather (below -5 Celsius) spikes demand to 12.5 million cubic meters (MCM), well above the 10 MCM capacity of the import pipeline. According to Popovic, Serbia would like to build a gas pipeline connection to either Croatia or Romania, but which connection, and how large the pipe would be is dependent on the future of the Nabucco and South Stream pipeline projects. In this context, the Minister noted that Serbia was an observer in the Nabucco project, but did not have a significant role in influencing the possible gas pipelines that were being proposed to cross the region. Serbia would like to be a transit country and the country could benefit from transit revenue.

3. (SBU) Popovic did not comment on how Serbia would pay for the gas required to fill the Banatski Dvor facility and indicated that Serbia would look to purchase gas from anyone willing to deliver it to Serbia. In an October 5 discussion, the head of Srbijagas, told Econoff that Serbia had been unsuccessful in finding suppliers who could deliver gas due to restrictions by Gazprom and MOL, the owner

of the pipeline connection to Serbia. The Vice Chairman of Gazprom, Alexei Miller, arrives in Serbia October 9 for discussions with the Serbian government to discuss gas issues, including storage and transit pipelines, and the privatization of NIS, the state-owned oil company. Popovic did not mention the Gazprom visit, during the meeting with the Ambassador, and just a few days before the visit, the director of Srbijagas only warned to watch for activity on gas issues in the coming week, but was unwilling to divulge the fact that Miller would visit Serbia. In response to a question about the nature of the energy relationship with Russia, Popovic replied that the relationship was, "business, just business, not friends." In response to DCM's question about eventually buying gas directly from Turkmenistan, rather than Russia, Popovic waved his hand dismissively saying something about not dealing with that "Turkmenbashy guy."

Privatization of NIS and Winter Electricity

¶4. (U) Turning to oil and electricity, Popovic expressed optimism that the NIS (state-owned oil company) privatization of a minority share in the company would move ahead in the coming months, but he said that the process was awaiting political agreement at the highest levels. With regard to electricity he outlined his goal to release a tender before the end of the year for strategic partners to join in constructing two 700 MW coal-fired power plants. A law must be passed in parliament for the tender process, but Popovic expressed optimism that the project tenders would move ahead quickly. Serbia had sufficient electricity production for most needs, but required electricity imports during the coldest days of the year. Continuing on electricity, he raised the issue of supplying electricity for Kosovo Serbs. Popovic said that Serbia would again offer to donate power to Kosovo Serbs and expressed hope that an agreement could be reached this year with UNMIK. During a

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later discussion, a senior UNMIK official in Belgrade told Econoff that he expected a deal on power donations this winter could be reached, but would require some flexibility as UNMIK and KEK (Kosovo's electric utility) could not meet Belgrade's requirement to only support Serb enclaves as some of the enclaves were on small spur lines serving both ethnic Serb and Albanian communities.

SEEC Meeting in Greece - Reaction to Provocation

¶5. (SBU) Prompted by a question from the Ambassador about the September 28 SEEC meeting in Athens where Popovic walked out in a dispute over the presentation by the representative from Kosovo, Popovic said that he did not have a problem with UNMIK participation at the meeting. Although he had been impressively sane and rational throughout the first part of the meeting, he resorted to a "crazed Serb" analogy, asking if the United States would allow Al-Queda to represent Liberia at a multilateral meeting. Returning to logic, he then outlined the Serbian government's position that did he object to a "so-called minister" from a "so-called ministry" representing UNMIK. He said he was compelled to walk out, when the representative from Kosovo opened his power-point presentation with a slide that including the title "Government of Kosovo". Popovic expressed his desire to continue working in the SEEC process, but that he needed to work with the EU to come up with clearer guidelines for discussions involving UNMIK and Kosovo. He emphasized that the EU mediator had acted entirely correctly during the meeting.

Comment

¶6. (SBU) Popovic's outline of Serbia's energy situation covered the significant issues - access to gas, electricity production - but left out key details about the relationship with Russia. The fact that he did not mention the planned visit from Gazprom, less than a week before the visit, is one indication of the back-room nature of the energy relationship with Russia. While the Serbs say that they are looking for ways to enhance their energy security, and diversify their energy partners, Gazprom is working to more firmly entrench

itself. Any of the three prospective Gazprom scenarios purchase of NIS, construction of a pipeline through Serbia, or partnership in the Banatski Dvor gas storage facility mostly would serve to cut off Serbia's leverage to integrate more into a European energy network, possibly supplied with gas not originating in Russia. End Comment.

MUNTER